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COMPLIMENTARY

1980 MERGER SUMMARY

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MERGER & ACQUISITION ANNOUNCEMENTS

Net merger and acquisition announcements* in 1980 fell 11% to 1,889 from 2, 128 in 1979. This represents the highest percentage decline since 1975, when acquisition announcements dropped 20%, from 2,861 to 2,297 transactions.

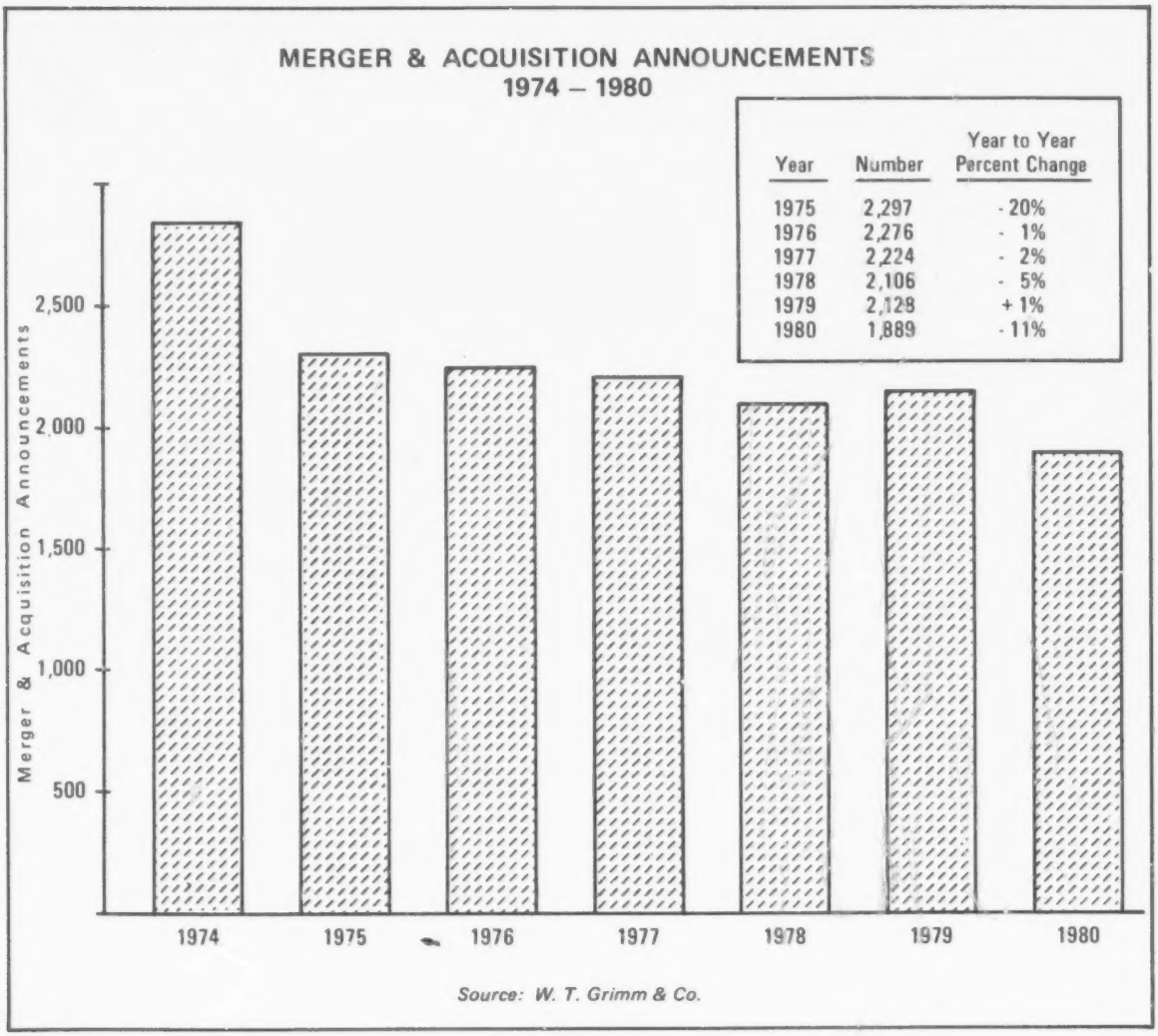

Figure 1.

*The term net merger and acquisition announcements refers to completed or pending transactions as of the end of the applicable period. The W. T. Grimm & Co. Research Department records publicly announced transfers of ownership of at least 10% of a company's assets or equity. Divisional/partial sales must have a minimum purchase price of $500,000 to be included in the merger count.

Mergers in the first quarter of 1980 slumped 29% to 411 transactions from the comparable 1979 quarter. The first quarter total was the lowest quarterly merger count in over ten years. Second quarter activity also declined, but less drastically; it underwent a 17% decrease. By the third quarter, acquisitions picked up slightly and were down only 1%. Following these three consecutive declines, merger and acquisition activity rebounded in the fourth quarter with a 6% increase over the comparable year-earlier period. This recent spurt in activity, however, was not enough to offset the sluggishness of the previous quarters. The quarterly merger scene of the last two years is depicted in the subsequent graph.

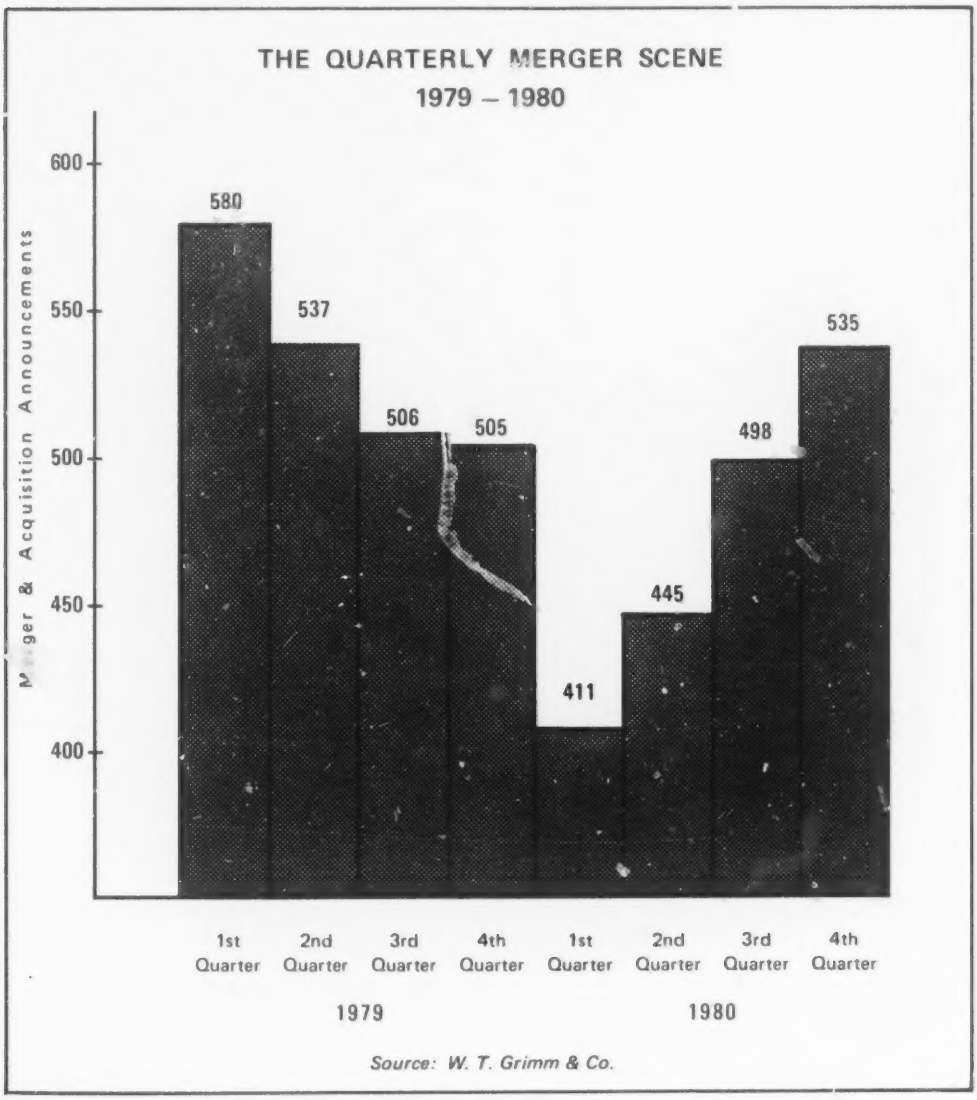

Figure 2.

The quarterly merger counts indicate that the decline in acquisition activity commenced during the second quarter of 1979, and ran its course during the first quarter of 1980. The decline coincided with the historic climb of the prime rate that began during the 1979 third quarter and reached a peak at that time, of 20% in April, 1980.

The succeeding table differentiates merger announcements between four types of transactions. Quantities are supplied for each sector along with their respective percentages of total activity.

COMPOSITION OF ACQUISITION ANNOUNCEMENTS

		1976	1977	1978	1979	1980
	Divestitures	1,204 (53%)	1,002 (45%)	820 (39%)	752 (35%)	666 (35%)
Acquisitions of	Publicly Traded Sellers*	163 (7%)	193 (9%)	260 (12%)	248 (12%)	173 (9%)
	Privately Owned Sellers*	856 (38%)	971 (44%)	969 (46%)	1,049 (49%)	988 (52%)
	Foreign Sellers*	53 (2%)	58 (2%)	57 (3%)	79 (4%)	62 (4%)

*Acquisitions of Entire Companies

Source: W. T. Grimm & Co.

Figure 3.

DOLLAR VOLUME PAID – ANOTHER RECORD

Compensating for the decline in overall merger activity, the total dollar volume paid for the 890 transactions providing a purchase price reached a new record for the second consecutive year. The 1980 aggregate of $44.3 billion surpassed last year's record $43.5 billion (based on 1,047 transactions). Comparable totals for 1978 and 1977 were $34.2 billion and $21.9 billion, respectively.

Resembling previous years, the surge in the dollar volume resulted from the increase in "big deals." For 1980, completed or pending transactions having a purchase price of $100 million or more numbered 94, compared with 83 in 1979. Figure 4 compares the growth in sizable acquisitions with the overall merger movement.

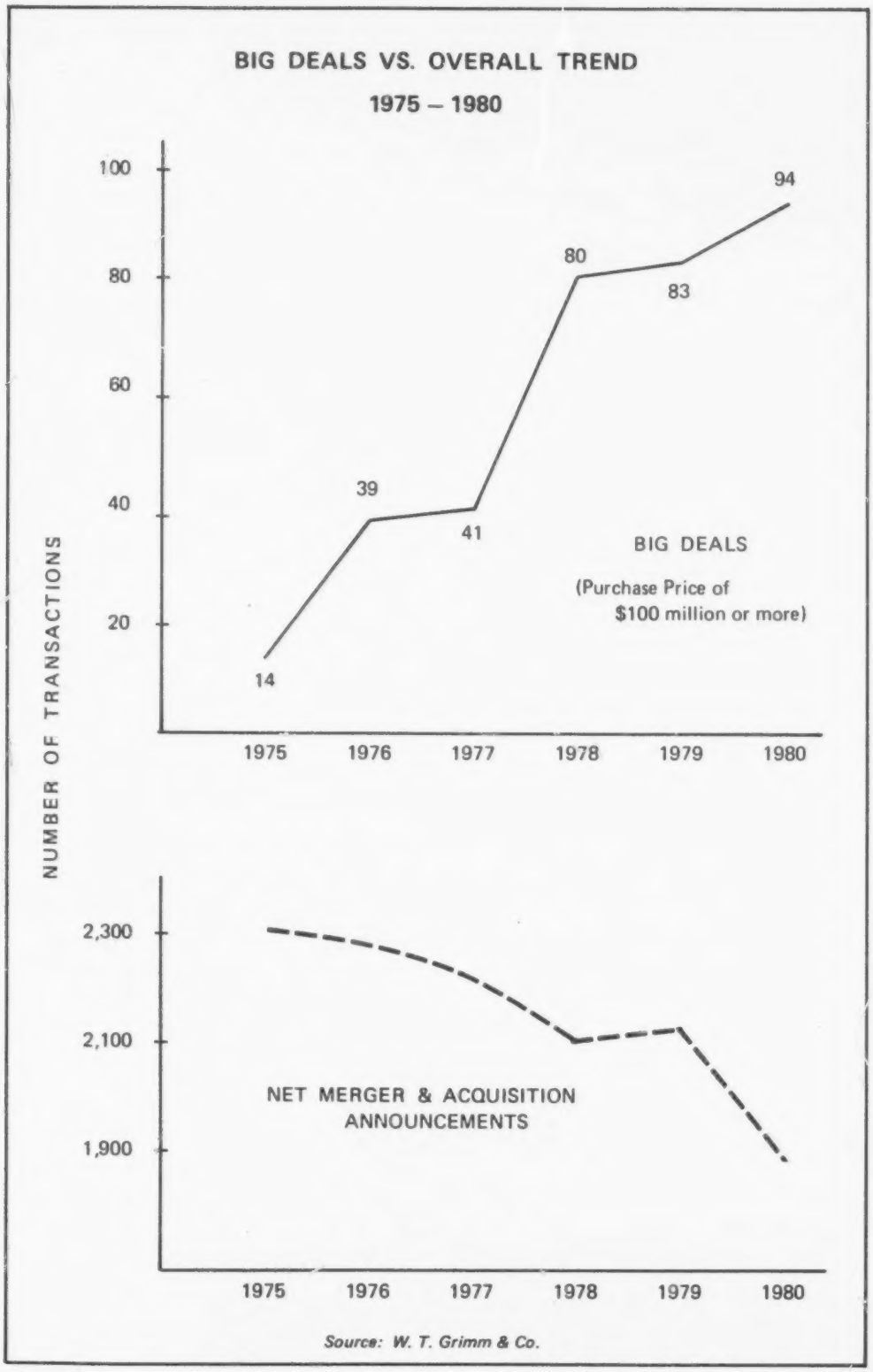
BIG DEALS VS. OVERALL TREND
1975 – 1980
NUMBER OF TRANSACTIONS
100
80
60
40
20
14
39
41
80
83
94
BIG DEALS
(Purchase Price of
$100 million or more)
1975
1976
1977
1978
1979
1980
2,300
2,100
1,900
NET MERGER & ACQUISITION
ANNOUNCEMENTS
1975
1976
1977
1978
1979
1980
Source: W. T. Grimm & Co.

Figure 4.

The increase in large takeovers over the past few years reflects managements' response to the economic environment of the 1970s: inflation, declining growth rates, depressed asset values in the capital markets, unpredictability of economic conditions. Acquisition strategies, especially those emphasizing diversification, became effective policies to overcome the unstable economic atmosphere.

Given the continual prevalence of such economic factors, sizable consolidations are not decreasing. Record-high interest rates did not affect the large acquirers. Some were cash-rich, others were able to offer attractive stock packages, still others obtained financing abroad. Also, corporations with top-notch credit ratings were able to get cash for less than prime.

The 1980 increase in sizable transactions was also the result of a new emerging trend. Of the 94 big deals counted for 1980, 29 involved the sale of a division or subsidiary, compared with 18 large divestments in 1979. (A discussion of divestitures appears on page 18.)

In Figure 5 the 20 largest completed or pending transactions as of December 31, 1980 are outlined along with the estimated price paid. The value of the top 20 aggregated $17.9 billion, up from $15.8 billion in 1979.

THE 20 LARGEST COMPLETED OR PENDING TRANSACTIONS
1980

Buyer/ Seller	Approximate Price Paid (Millions)
#Freeport Minerals Co.	
McMoran Oil & Gas Co.	$2,319.9
Sun Co., Inc.	
Seagram Co. Ltd. – Canada	
(Texas Pacific Oil Co.)	2,300.0
#Kraft, Inc.	
Dart Industries, Inc.	2,100.0
#Southern Railway	
Norfolk & Western Railway	1,730.2
Union Pacific	
Missouri Pacific Corp.	920.1
Cooper Industries, Inc.	
Crouse-Hinds Co.	846.4
Mobil Corp.	
Esmark, Inc.	
(Trans Ocean Oil, Inc.)	720.0
*InterNorth, Inc.	
Crouse-Hinds Co.	684.5
Marmon Group	
Trans Union Corp.	683.5
Westinghouse Electric Corp.	
Teleprompter Corp.	645.6
Midland Bank Ltd. – Britain	
Crocker National Corp. (51% interest)	595.0
Wheelabrator-Frye, Inc.	
Pullman, Inc.	584.6
Marsh & McLennan Cos.	
C. T. Bowring & Co. – Britain	554.7
Getty Oil Co.	
ERC Corp.	540.0
Grand Metropolitan Ltd. – Britain	
Liggett Group, Inc.	526.7
Tenneco, Inc.	
Houston Oil & Minerals Corp.	493.2
Amax, Inc.	
Rosario Resources Corp.	458.3
Kohlberg, Kravis, Roberts & Co.	
Bendix Corp.	
(forest products business)	435.0
Signal Cos.	
Ampex Corp.	431.6
Canadian Pacific Enterprises Ltd. – Canada	
Hobart Corp.	371.3
	$17,940.6

#Statutory Merger – Companies consolidate to form new entity; price paid determined by combining the respective market values of participants.

*Cancelled in January, 1981.

Source: W. T. Grimm & Co.

Figure 5.

While many of the large public takeovers are remembered, the small privately held deals, comprising the majority of merger and acquisition activity, go unnoticed. The depth of smaller transactions is shown in the following segmentation.

VALUE OF MERGERS

Price Paid Value	Percent of Transactions 1979		1980	
$ 1 million or less	6%		5%	
$ 1.1 – 2.0 million	8%		7%	
$ 2.1 – 3.0 million	8%	36%	8%	34%
$ 3.1 – 4.0 million	7%		7%	
$ 4.1 – 5.0 million	7%		7%	
$ 5.1 – 10.0 million	19%		18%	
$10.1 – 15.0 million	9%	38%	9%	36%
$15.1 – 25.0 million	10%		9%	
$25.1 – 50.0 million	11%	18%	12%	19%
$50.1 – 99.9 million	7%		7%	
$100 million or more	8%		11%	

Source: W. T. Grimm & Co.

Figure 6.

MEDIUM OF PAYMENT

The strong summer-autumn stock market rally of 1980 enabled more corporate acquirers to finance acquisitions with their common or preferred shares, an advantageous alternative to the higher cost of cash. Among the 1,121 transactions disclosing the method of payment during 1980, 345 or 31% involved an exchange of **stock**, up from 26% in 1979. Buyer industry categories which issued more **stock** than **cash** for their purchases included Drugs, Cosmetics & Medical Equipment, Electronics, Instruments & Optics, and Petroleum.

Cash acquisitions, accounting for 522 or 47% of transactions, declined from 53% in 1979. **Combinations** of cash, stock and/or debt were used in 237 deals or 21%, compared with 20% last year. **Debt** maintained its share of 1%.

The following graph depicts the payment trends since 1974, the year in which **cash** became the predominant acquisition medium. **Stock** was widely used from 1967 through 1973. The peak occurred during 1968, when **stock** deals constituted 62%.

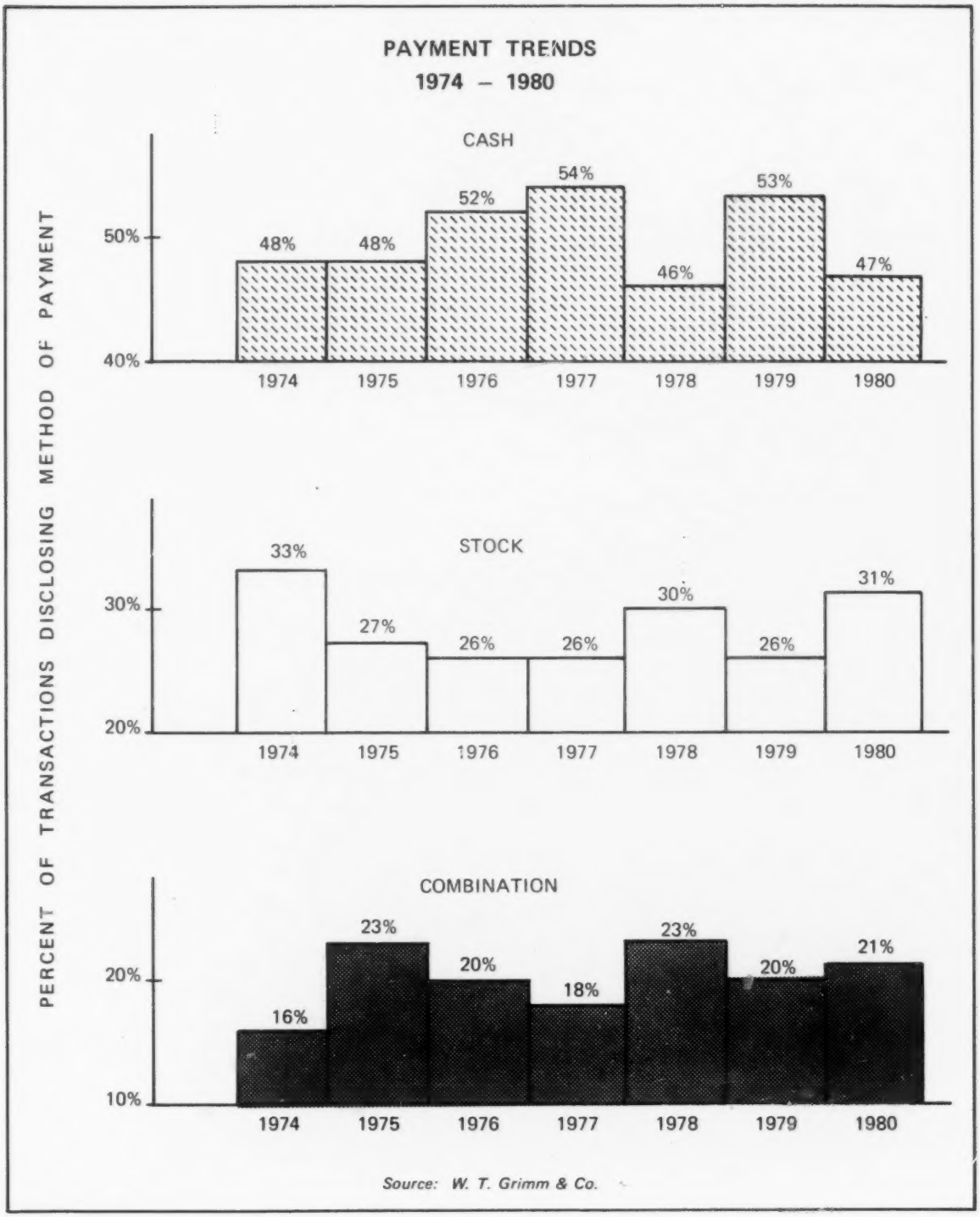
PAYMENT TRENDS
1974 – 1980
PERCENT OF TRANSACTIONS DISCLOSING METHOD OF PAYMENT
CASH
50%
40%
48%
48%
52%
54%
46%
53%
47%
1974
1975
1976
1977
1978
1979
1980
STOCK
30%
20%
33%
27%
26%
26%
30%
26%
31%
1974
1975
1976
1977
1978
1979
1980
COMBINATION
20%
10%
16%
23%
20%
18%
23%
20%
21%
1974
1975
1976
1977
1978
1979
1980
Source: W. T. Grimm & Co.

Figure 7.

In comparing the forms of payment with respect to the size of the transaction, we found an increase in exchanges of **stock** for every dollar value category. See below.

FORMS OF PAYMENT
COMPARISON BY VALUE OF DEALS
1979 – 1980

	Percent of Transactions					
	Cash		Stock		Combination	
Price Paid Value	1979	1980	1979	1980	1979	1980
Under $25 million	49%	46%	33%	34%	17%	18%
$25.1 – 50.0 million	67%	55%	15%	26%	17%	18%
$50.1 – 100.0 million	62%	63%	15%	19%	22%	17%
Over $100 million	50%	44%	13%	27%	36%	28%

Source: W. T. Grimm & Co.

Figure 8.

ANALYSIS OF MERGER ACTIVITY BY INDUSTRY

In reviewing merger statistics covering 40 basic industry categories, the W. T. Grimm & Co. Research Department determined all but 17 had experienced declining acquisition activity. Among the 17 classifications, 12 witnessed an increase in merger-acquisition announcements, while 5 remained unchanged.

Finance, Banks & Insurance, historically the most active seller grouping of the 40, preserved its primal ranking although it dropped 8% from its 1979 merger count. Since the passage in March of the 'Depository Institutions Deregulation & Monetary Control Act of 1980,' mergers should accelerate in the savings & loan, banking and consumer finance industries. As a result of the deregulation act, both banks and thrifts will be competing for money in the capital markets. Higher operating costs and an increasing squeeze on profits will force those, who lack the financial power, to consolidate with stronger institutions. Most affected, of course, will be the smaller firms. Consumer finance companies, on the other hand, are redirecting their services toward the middle and upper income customer, thereby further enhancing the competition between financial institutions.

The General Services category, experiencing only a 3% decline, primarily consisted of establishments engaged in providing services for the oil/gas industry. With oil profits soaring and an expected surge in exploration and production, such concerns will surely continue to be attractive acqusition candidates.

Well-entrenched since 1968 as the third most active classification, Wholesale & Retail contained 190 transactions in 1980, an 11% drop from the 213 counted in 1979.

Following a three-year absence from the top-ten listing, the Petroleum category reemerged in the tenth position with an aggregate of 56 transactions, up 8% from 1979's total of 52. Petroleum did, however, rank first in the top-ten roster by dollar volume.

All but three classifications comprising the dollar volume schedule were the same as in 1979. The three newcomers were Conglomerate, Transportation, and Machinery, Equipment & Farm Equipment.

Ranking of the ten seller industry categories most active during 1980, as well as quantities and positions in previous years, is enumerated in Figure 9, while Figure 10 lists the top ten classifications by dollar volume. Note the dollar aggregate for all of the ten industries; it represents 78% of the 1980 total amount.

TOP TEN INDUSTRY CLASSIFICATIONS

Industry Classification of Seller	1976	1977	1978	1979	1980
Finance, Banks & Insurance	313 (1)	291 (1)	253 (1)	326 (1)	301 (1)
General Services	221 (2)	266 (2)	240 (2)	222 (2)	215 (2)
Wholesale & Retail	202 (3)	190 (3)	192 (3)	213 (3)	190 (3)
Machinery, Equipment & Farm Equipment	112 (5)	116 (5)	95 (5)	91 (5)	90 (4)
Food Processing & Agriculture	106 (6)	134 (4)	112 (4)	126 (4)	70 (5)
Drugs, Cosmetics & Medical Equipment	62 (11)	60 (9)	60 (10)	62 (9)	69 (6)
Electronics	60 (12)	65 (8)	66 (8)	82 (6)	68 (7)
Public Utilities	72 (9)	84 (6)	68 (7)	67 (8)	60 (8)
Printing & Publishing	58 (13)	57 (10)	65 (9)	57 (12)	57 (9)
Petroleum	96 (7)	55 (12)	47 (14)	52 (13)	56 (10)

Source: W. T. Grimm & Co.

Figure 9.

TOP TEN INDUSTRY CLASSIFICATIONS BY DOLLAR VOLUME 1980

Industry Classification of Seller	Total Dollar Volume Paid (Millions)
Petroleum	$ 8,401.7
Finance, Banks & Insurance	6,792.8
*Conglomerate	5,363.9
*Transportation	3,289.4
Mining, Timber & Minerals	2,414.0
General Services	2,139.2
*Machinery, Equipment & Farm Equipment	1,914.3
Wholesale & Retail	1,709.8
Drugs, Cosmetics & Medical Equipment	1,237.2
Public Utilities	1,191.6
	$34,453.9

*Newcomers to listing

Source: W. T. Grimm & Co.

Figure 10.

In comparing 1980 and 1979 merger counts industry-wide, increases in activity were noted in 12 categories. The compilation below indicates the relative size of each category as well as the growth percentage.

INCREASED MERGER ACTIVITY

Seller Industry Classification	1979	1980	% Increase
Conglomerate	7	13	+ 86%
Transportation	26	36	+ 38%
Valves, Pumps & Hydraulics	22	30	+ 36%
Health Services	20	27	+ 35%
Textiles	15	19	+ 27%
Machine Tools	19	24	+ 26%
Miscellaneous	36	44	+ 22%
Drugs, Cosmetics & Medical Equipment	62	69	+ 11%
Electrical Equipment	34	37	+ 9%
Machined Metal Products	13	14	+ 8%
Petroleum	52	56	+ 8%
Packaging & Containers	16	17	+ 6%

Source: W. T. Grimm & Co.

Figure 11.

Of the 23 categories encountering diminished merger activity, the 6 sustaining the greatest percentage decreases were the following:

DECREASED MERGER ACTIVITY

Seller Industry Classification	1979	1980	% Decrease
Rubber & Leather	14	5	- 64%
Heating & Air Conditioning	15	6	- 60%
Automotive Products	24	11	- 54%
Fabricated Metal Products	21	11	- 48%
Food Processing & Agriculture	126	70	- 44%
Stone, Clay & Glass	35	21	- 40%

Source: W. T. Grimm & Co.

Figure 12.

INTERNATIONAL TRANSACTIONS

Foreign Buyers

In 1980, foreign capital purchased interests in 187 American-held enterprises, down 21% from the 236 such transactions recorded in 1979. Foreign buyers refrained from their usual aggressiveness and instead concentrated on adjusting themselves for an impending economic slowdown in their respective countries. In addition, many foreign concerns, wanting a better indication of the American economy's direction, awaited the results of the U.S. presidential election.

In line with the overall trend, merger activity was concentrated in the "sizable deal" category. Foreign acquisitions of American companies valued at over $100 million rose from 8% in 1979, to 19% of all foreign transactions during 1980. (See Figure 13 which compares the 1979 price paid distribution to that of 1980.) The total dollar volume paid for U.S. firms, therefore, increased from $5.9 billion last year to the current $7.1 billion.

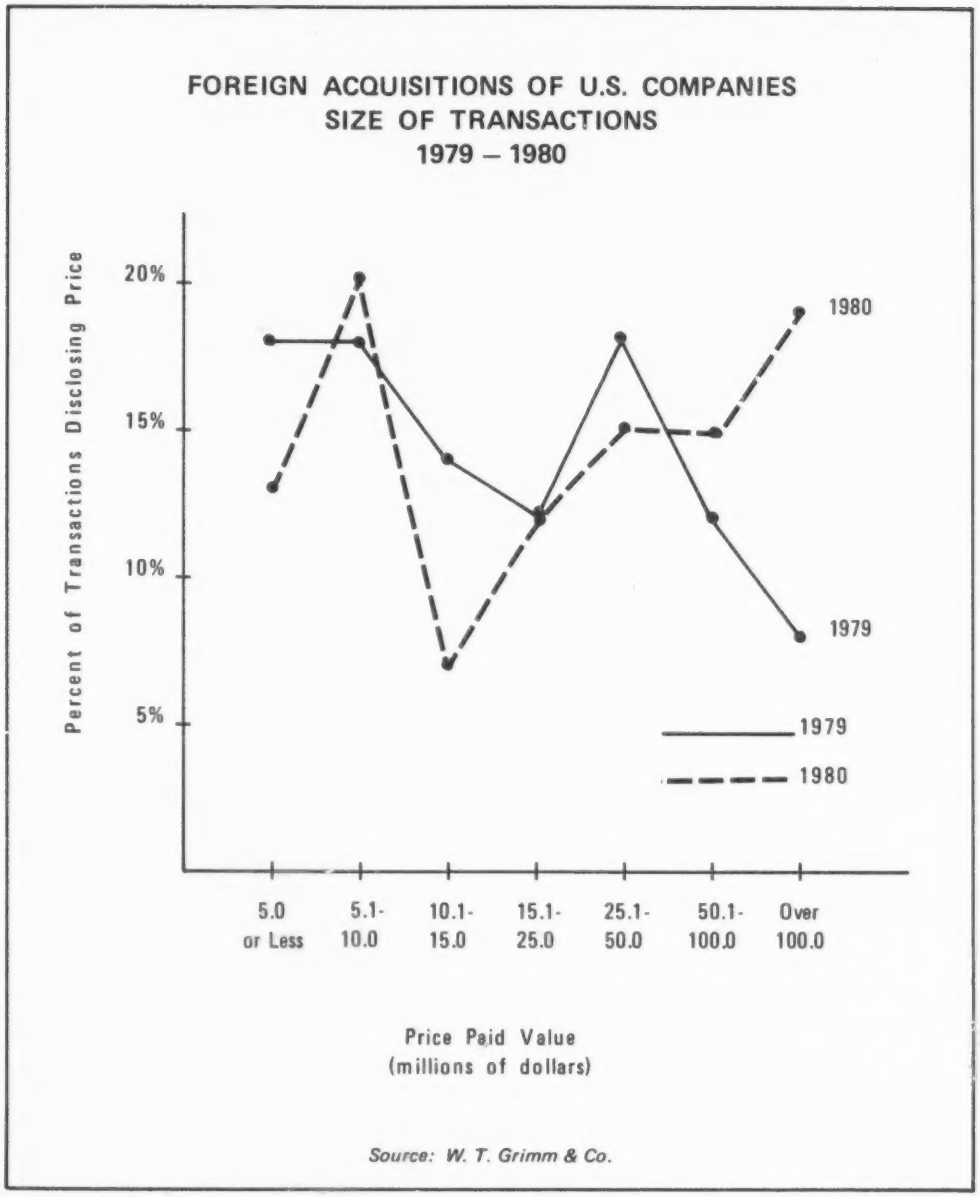

Figure 13.

Like their American counterparts, foreign managements also rely on acquisition strategies to invest in growth sectors, expand markets, and/or secure desired diversification. Furthermore, they establish investments here that would provide an entrance for the products of their subsidiaries.

FOREIGN BUYERS
SIZABLE TRANSACTIONS
1980

Foreign Buyer/ American Seller	Price Paid (Millions)
Midland Bank Ltd – Britain Crocker National Corp. (51%)	$595.0
Grand Metropolitan Ltd. – Britain Liggett Group, Inc.	526.7
Canadian Pacific Enterprises, Ltd. - Canada Hobart Corp.	371.3
British Columbia Forest Products Ltd., Doman Industries, Ltd., Whonnock Industries, Ltd. – Canada International Telephone & Telegraph Corp. (Rayonier Canada division)	365.0
Elkem-Spigerverket – Norway Union Carbide Corp. (more than 50% of metals business)	285.0
Trizec Corp. – Canada Ernest W. Hahn, Inc.	266.7
Total Petroleum Ltd. – Canada Esmark, Inc. (Vickers Petroleum Corp.)	245.0
Hanson Trust Ltd. – Britain McDonough Co.	179.3
Barclays Bank Ltd. – Britain Aetna Life & Casualty Co. (Aetna Business Credit, Inc.)	165.0
Mitsui Bank Ltd. – Japan Manufacturers Bank of Los Angeles	164.7

Source: W. T. Grimm & Co.

Figure 14.

Foreign acquirers were attracted to the following industries:

INDUSTRIES ATTRACTING FOREIGN BUYERS
1980

Seller Industry Category	Number of Acquisitions 1980	1979	Percent Change
Finance, Banks & Insurance	19	24	- 21%
Wholesale & Retail	19	23	- 17%
Machinery, Equipment & Farm Equipment	17	15	+ 13%
Food Processing & Agriculture	15	18	- 17%
General Services	15	20	- 25%
Chemicals, Paints & Coatings	8	12	- 33%

Source: W. T. Grimm & Co.

Figure 15.

The subsequent chart identifies those countries furnishing the most acquirers. The number of transactions and respective rankings from the last two years are also provided. Canada regained its lead from Britain. Sweden, a new entry, displayed an increasing interest in U.S. companies. France maintained its recent aggressive nature. The remaining countries initiated fewer acquisitions in 1980 than in 1979.

LEADING FOREIGN PURCHASERS
1980

Foreign Purchaser	Number of Acquisitions 1978	1979	1980
Canada	49 (2)	50 (2)	57 (1)
Britain	62 (1)	60 (1)	50 (2)
France	6 (6)	18 (4)	20 (3)
West Germany	27 (3)	37 (3)	14 (4)
Japan	9 (5)	11 (7)	9 (5)
Sweden	2 (12)	4 (9)	8 (6)
Switzerland	11 (4)	16 (5)	7 (7)
Netherlands	4 (7)	11 (6)	6 (8)

Source: W. T. Grimm & Co.

Figure 16.

Foreign Sellers

Transactions involving foreign sellers and American buyers totaled 102, compared with 119 in 1979. Based on those transactions supplying a purchase price, U.S. companies paid an aggregate $3.8 billion, more than twice the 1979 total of $1.5 billion. A look at the five largest pending or completed acquisitions of foreign concerns explains the dramatic increase in the dollar volume; these transactions contributed 89% of the $3.8 billion.

AMERICAN BUYERS/FOREIGN SELLERS
LARGEST TRANSACTIONS
1980

American Buyer/ Foreign Seller	Price Paid (Millions)
Sun Co., Inc. Seagram Co. Ltd. – Canada (Texas Pacific Oil Co.)	$2,300.0
Marsh & McLennan Cos. C. T. Bowring & Co. – Britain	554.7
Ensearch Corp. Davy Corp. – Britain	339.4
Allegheny Ludlum Industries, Inc. Wilkinson Match Ltd. – Britain (remaining 56%)	100.0
Reeves Communications Corp. Musexport Ltd. – Canada (publishing and direct marketing businesses)	70.0

Source: W. T. Grimm & Co.

Figure 17.

Among the 102 foreign sellers, 78% were concentrated in the following countries.

LEADING FOREIGN SELLERS
1980

Foreign Seller	Number of Acquisitions 1980	1979	Percent Change
Britain	38	35	+ 9%
Canada	15	15	–
France	8	17	- 53%
West Germany	7	10	- 30%
Australia	7	6	+ 17%
Spain	5	7	- 29%

Source: W. T. Grimm & Co.

Figure 18.

ACQUISITION LEADERS

With total business combinations at a reduced level in 1980, a number of major corporations bucked the general trend and initiated aggressive acquisition programs. An inventory of the 11 most aggressive buyers of 1980 disclosed that all but two were new entries.

W. R. Grace & Co., one of the renewals, preserved its first-place standing by continuing to expand into the profitable oil field service industry.

M/A-Com, Inc., known for its "high flying" stock, ranked second. M/A-Com is an excellent example of the "growth through acquisition" strategy. Within the last year, M/A-Com has transformed itself from a producer of radar parts to a company offering a wide range of advanced telecommunications. Its acquisition criteria accentuates fast growing firms with technological leadership.

The remaining entries include Merrill Lynch & Co., which maintained its diversification drive into the real estate brokerage field; Pengo Industries, Inc., which strengthened its oil field service business; Storer Broadcasting Co., whose acquisitions were all in the cable-television industry; and Thomas Tilling Ltd. of Britain, a familiar name in the merger marketplace.

The 11 aggressive buyers of 1980 and the respective numbers of known acquisition proposals initiated by each are indicated below.

AGGRESSIVE BUYERS
1980

W. R. Grace & Co.	10
M/A-Com, Inc.	9
Allied Chemical Corp.	7
Dana Corp.	7
Merrill Lynch & Co.	7
Pengo Industries, Inc.	7
Storer Broadcasting Co.	7
Thomas Tilling Ltd. – Britain	7
Anacomp, Inc.	6
Corroon & Black Corp.	6
General Electric Co.	6

Source: W. T. Grimm & Co.

Figure 19.

In addition to the top 11 acquirers, 14 other companies made five acquisitions each. Comparatively, only seven firms initiated that many purchases in 1979. Figure 20 lists the 14.

AGGRESSIVE BUYERS
RUNNERS UP
1980

Allied Bancshares, Inc.	Hammermill Paper Co.
Armco, Inc.	Napco Industries, Inc.
Central Telephone & Utilities Corp.	National Detroit Corp.
Commerce Southwest, Inc.	Nucorp Energy, Inc.
Cooper Laboratories, Inc.	Schering-Plough Corp.
First International Bancshares, Inc.	Tiger International, Inc.
General Signal Corp.	Westinghouse Electric Corp.

Source: W. T. Grimm & Co.

Figure 20.

DIVESTITURES

In compiling merger-acquisiton announcements, the W. T. Grimm & Co. Research Department includes those partial sales where 10% or more of a company's equity is purchased as well as divisional sales where a product line, a subsidiary or a division is sold. These partial/divisional sales totaled 666 transactions in 1980 or 35% of net announcements, compared with 752 or 35% in 1979.

An inspection of the ensuing chart shows the frequency of larger divestitures increasing from 1979 to 1980, particularly among the $100 million or more transactions.

VALUE OF DIVESTITURES
1979 – 1980

Price Paid Value	Percent of Transactions 1979	1980
$ 5 million or less	35%	27%
$ 5.1 – 10.0 million	19%	21%
$10.1 – 15.0 million	9%	9%
$15.1 – 25.0 million	12%	9%
$25.1 – 50.0 million	13%	14%
$50.1 – 99.9 million	6%	8%
$100 million or more	6%	11%

Source: W. T. Grimm & Co.

Figure 21.

In view of inflationary pressures and high interest rates, a number of companies, particularly diversified concerns, are evaluating their operations with a special emphasis on the cost of capital and the return from capital. Consequently, managements are formulating pertinent divestiture programs.

In addition to divesting slow-growth and/or marginal-profit units, managements are also divesting those operations which require a rapidly rising infusion of capital, i.e., cash-draining businesses. For instance, Esmark, Inc. sold its oil business because it lacked the necessary capital to operate it successfully. Another case is the sale of the ethical pharmaceutical business by Richardson-Merrell, Inc. Due to the increasing level of research and development costs, Richardson did not have the financial power to effectively compete in the ethical drug industry.

Whatever the reasons for divesting, corporate managements are asking themselves what businesses will be productive in the future and produce a high return. The proceeds from divestitures are thus directed toward internal improvements or acquisitions of those companies offering growth. Hence, Bendix Corp. sold its sizable forest-products division along with some smaller units, and at the same time disclosed its intention to search for acqusition candidates in the high-technology field.

A sampling of this year's major divestitures is presented in the succeeding listing. Figure 23 identifies those companies which initiated an aggressive divestiture program during 1980.

THE TWENTY LARGEST DIVESTITURES
1980

Buyer Selling Parent Company (Division sold)	Price Paid (Millions)
Sun Co., Inc. Seagram Co. Ltd. – Canada (Texas Pacific Oil Co.)	$2,300.0
Mobil Corp. Esmark, Inc. (TransOcean Oil, Inc.)	720.0
Kohlberg, Kravis, Roberts & Co. Bendix Corp. (forest products business)	435.0
British Columbia Forest Products Ltd., Doman Industries, Ltd., Whonnock Industries, Ltd. – Canada International Telephone & Telegraph Corp. (Rayonier Canada division)	365.0
Elkem-Spigerverket – Norway Union Carbide Corp. (metals business)	285.0
Dow Chemical Co. Richardson-Merrell, Inc. (ethical pharmaceutical business)	260.0
Total Petroleum Ltd. – Canada Esmark, Inc. (Vickers Petroleum Corp.)	245.0
Amax, Inc. Borden, Inc. (phosphate mining and processing units)	200.0
Occidental Petroleum Corp. Firestone Tire & Rubber Co. (Firestone Plastics Co.)	200.0
Private Group Allegheny Ludlum Industries, Inc. (Allegheny Ludlum Steel Corp.)	195.0
Barclays Bank Ltd. – Britain Aetna Life & Casualty Co. (Aetna Business Credit, Inc.)	165.0
British Columbia Forest Products Ltd. – Canada Scott Paper Co. (Elk River Timber Co.)	150.0
Tosco Corp. Sun Co., Inc. (Duncan, Oklahoma oil refinery)	140.0
Capital Cities Communication, Inc. General Tire & Rubber Co. (Cablecom-General, Inc.)	139.2
Swiss Reinsurance Co. and Zurich Insurance Co. – Switzerland American General Corp. (Fidelity & Deposit Co. of Maryland)	135.0
Ingersoll-Rand Co. Cabot Corp. (machinery division)	130.0
Standard Oil Co. of California Stauffer Chemical Co. (phosphate and fertilizer holdings in Utah)	130.0
CanWest Capital Corp. – Canada Wickes Cos. (Aristar, Inc.)	110.2
Petro-Lewis Corp. Barber Oil Corp. (domestic oil and gas subsidiary)	109.3
Carson Pirie Scott & Co. Squibb Corp. (Dobbs Houses, Inc.)	100.0

Source: W. T. Grimm & Co.

Figure 22.

LEADERS IN DIVESTMENT ACTIVITY
1980

Seller	Number of Divestitures
International Telephone & Telegraph Corp.	8
Esmark, Inc.	7
Itel Corp.	7
RCA Corp.	7
Kennecott Corp.	5
McGraw-Edison Co.	5
Union Carbide Corp.	5

Source: W. T. Grimm & Co.

Figure 23.

TENDER OFFERS

The surge in tender offer activity within the last five years came to an abrupt halt during 1980, when only 67 gross announcements were recorded. This represents a 52% drop from the comparable 1979 total of 140. Cancelled tender offers in 1980 numbered 14, leaving 53 completed or pending, still a considerable decline from the 108 comparable deals of 1979.

Figure 24 portrays the public tender offer scene since 1975.

TENDER OFFERS FOR
PUBLICLY TRADED TARGETS
1975 – 1980

	1975	1976	1977	1978	1979	1980
Total Announced	58	70	69	90	106	53
Contested by Target Firms	20	18	11	27	26	12
Contested and then Cancelled	6	12	6	14	17	8
Cancellations for Other Reasons	9	9	5	4	10	5
Total Unsuccessful Tenders	15	21	11	18	27	13
Completed or Pending Tenders	43	49	58	72	79	40

Source: W. T. Grimm & Co.

Figure 24.

A price-paid breakdown for all the 53 completed or pending offers of 1980 follows. Comparable statistics are provided for 1979.

VALUE OF TENDER OFFERS

	1979		1980	
Size of Offer	Number of Offers	Percentage	Number of Offers	Percentage
$5 million or Less	7	7%	6	11%
$ 5.1 – 10.0 million	10	10%	2	4%
$10.1 – 25.0 million	23	23%	11	21%
$25.1 – 50.0 million	18	18%	10	19%
$50.1 – 75.0 million	11	11%	5	10%
Over $75 million	30	31%	18	35%

Source: W. T. Grimm & Co.

Figure 25.

ACQUISITIONS OF PUBLICLY HELD COMPANIES*

As of December 31, 1980, there were 173 completed or pending acquisitions of publicly traded companies, down 30% from the 248 recorded for 1979. Comparing the first and second halves of 1980, activity had picked up from 77 transactions to 96. A further examination of previous six-month results shows that the decline commenced during the second half of 1979, when interest rates began their historic climb.

ACQUISITIONS OF PUBLICLY HELD COMPANIES
1976 – 1980

	1976	1977	1978	1979	1980
1st Half	81	95	139	141	77
2nd Half	82	98	121	107	96
Full Year (Completed or pending transactions)	163	193	260	248	173

Source: W. T. Grimm & Co.

Figure 26.

*Any purchase of a controlling interest or more in a publicly traded company.

The subsequent two charts point out the change in characteristics between 1979 and 1980 with respect to the form of payment and the size of transactions. Most noteworthy are the higher frequency of **stock** payments and the increase in large takeovers.

PUBLIC TAKEOVERS
1979 – 1980

MEDIUM OF PAYMENT

	1979	1980
Cash	67%	55%
Stock	14%	**25%**
Combination	19%	18%
Debt	–	2%

VALUE OF ACQUISITIONS

	Percent of Transactions Disclosing Price	
Value of Purchase Price	1979	1980
$10 million or less	20%	14%
$10.1 – 15.0 million	9%	7%
$15.1 – 25.0 million	14%	16%
$25.1 – 50.0 million	17%	17%
$50.1 – 100.0 million	16%	14%
Over $100 million	24%	**32%**

Source: W. T. Grimm & Co.

Figure 27.

PERCENT PREMIUM PAID OVER MARKET PRICE*

The average premium over market price paid for companies during 1980 was identical to that of 1979, 49.9%. (The 1980 average was calculated on 169 acquisitions of publicly traded companies, while 1979 was based on 229 transactions.) However, the 1980 median value fell slightly, from 47.6% to 44.6%.

*Premium paid tabulations are based on the seller's closing market price 5 business days prior to the initial announcement.

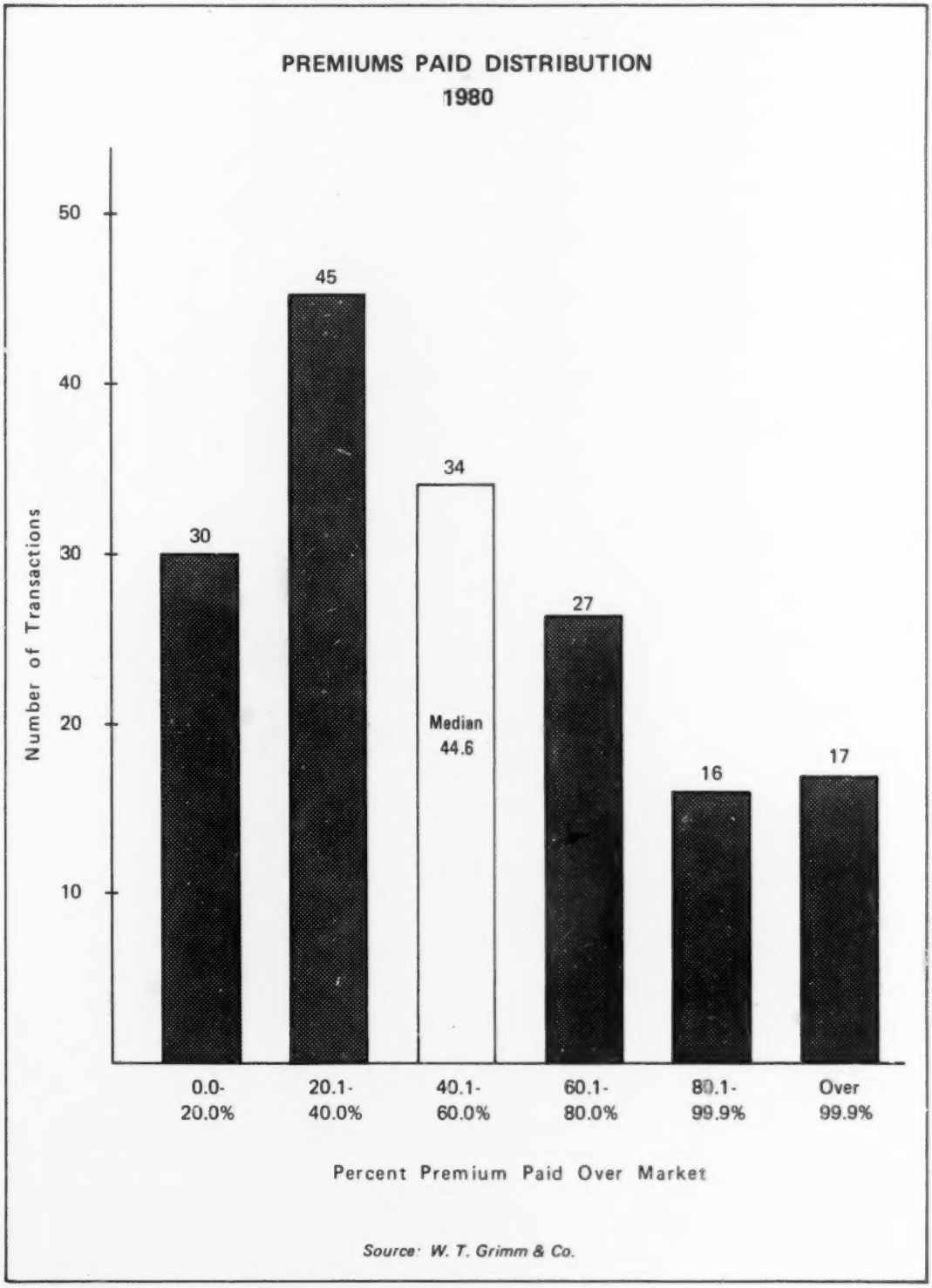
PREMIUMS PAID DISTRIBUTION
1980
Number of Transactions
50
40
30
20
10
45
34
30
27
16
17
Median
44.6
0.0-
20.0%
20.1-
40.0%
40.1-
60.0%
60.1-
80.0%
80.1-
99.9%
Over
99.9%
Percent Premium Paid Over Market
Source: W. T. Grimm & Co.

Figure 28.

A comparison of the premiums paid with respect to the dollar value of the transaction produced the following interesting results.

PERCENT PREMIUM PAID OVER MARKET
Comparison By Dollar Value
1980

Value of Purchase Price	Median Premium Paid
$25 million or less	48.4%
$25.1 – 50.0 million	43.8%
$50.1 – 100.0 million	35.1%
Over $100 million	45.1%

Source: W. T. Grimm & Co.

Figure 29.

Separate median premiums paid were also calculated for cash deals (median of 45.1%), stock transactions (38.0%), and combination-type offers (53.4%).

ACQUISITIONS OF PRIVATELY OWNED COMPANIES

Acquisitions of privately held concerns decreased only 6% to 988 from 1,049 transactions tabulated in 1979. Paralleling other sectors, activity increased during the second half which witnessed a total of 539 deals. Despite the 6% decline, the number of acquisitions still exceeds the aggregates of years prior to 1979.

ACQUISITIONS OF CLOSELY HELD COMPANIES
1976 – 1980

Year	Number of Transactions	Percent of Total Transactions
1980	988	52%
1979	1,049	49%
1978	969	46%
1977	971	44%
1976	856	38%

Source: W. T. Grimm & Co.

Figure 30.

As the chart on page 25 indicates, the purchase of closely held corporations is a significant, if not the most essential, component of merger and acquisition activity. The majority of privately held sellers, unlike many publicly traded firms, are companies receptive to being acquired, although some initially respond negatively. Reasons for selling are numerous and can entail both business and personal decisions: to obtain needed financing for expansion, to overcome market saturation, to provide liquidity for estate tax purposes, to perpetuate the business while being relieved of day to day operational responsibilities.

Another distinguishing characteristic of the private sector is the principal method of payment. Contrary to acquisitions of public companies, most purchases of closely held firms are made through an exchange of **stock. Stock** transactions accounted for 46% of all private deals providing payment terms during 1980 (41% in 1979), while **cash** was used in 32% (39% in 1979).

Owners of private concerns choose stock in order to avoid the capital gains tax. Furthermore, in many instances, management/owners remain with the company expecting to contribute to the future growth of the newly merged entity, thereby profiting from the stock's appreciation.

That most closely held sellers are small companies is evidenced by the distribution of the purchase prices.

ACQUISITIONS OF CLOSELY HELD COMPANIES
DOLLAR VALUE
1980

Value of Purchase Price	Percent of Transactions Disclosing Price
$1 million or less	8%
$ 1.1 – 2.0 million	9%
$ 2.1 – 3.0 million	12%
$ 3.1 – 4.0 million	11%
$ 4.1 – 5.0 million	9%
$ 5.1 – 10.0 million	21%
$10.1 – 15.0 million	9%
$15.1 – 25.0 million	7%
$25.1 – 50.0 million	9%
$50.1 – 100.0 million	4%
Over $100 million	1%

Source: W. T. Grimm & Co.

Figure 31.

PRICE/EARNINGS RATIOS PAID

Due to the substantial percentages of private sellers and divisional sales, few transactions release sufficient data on which to calculate Price/Earnings ratios. Only 243 deals, or 13% of all transactions, provided the necessary data in 1980. As the sampling size is quite small and is therefore unrepresentative of all acquisitions, multiples discussed here should be considered accordingly.

The 1980 average P/E ratio paid rose to 15.2 from the 14.3 times (based on 333 transactions) calculated in 1979. The distribution of 1980 multiples is depicted in the ensuing graph.

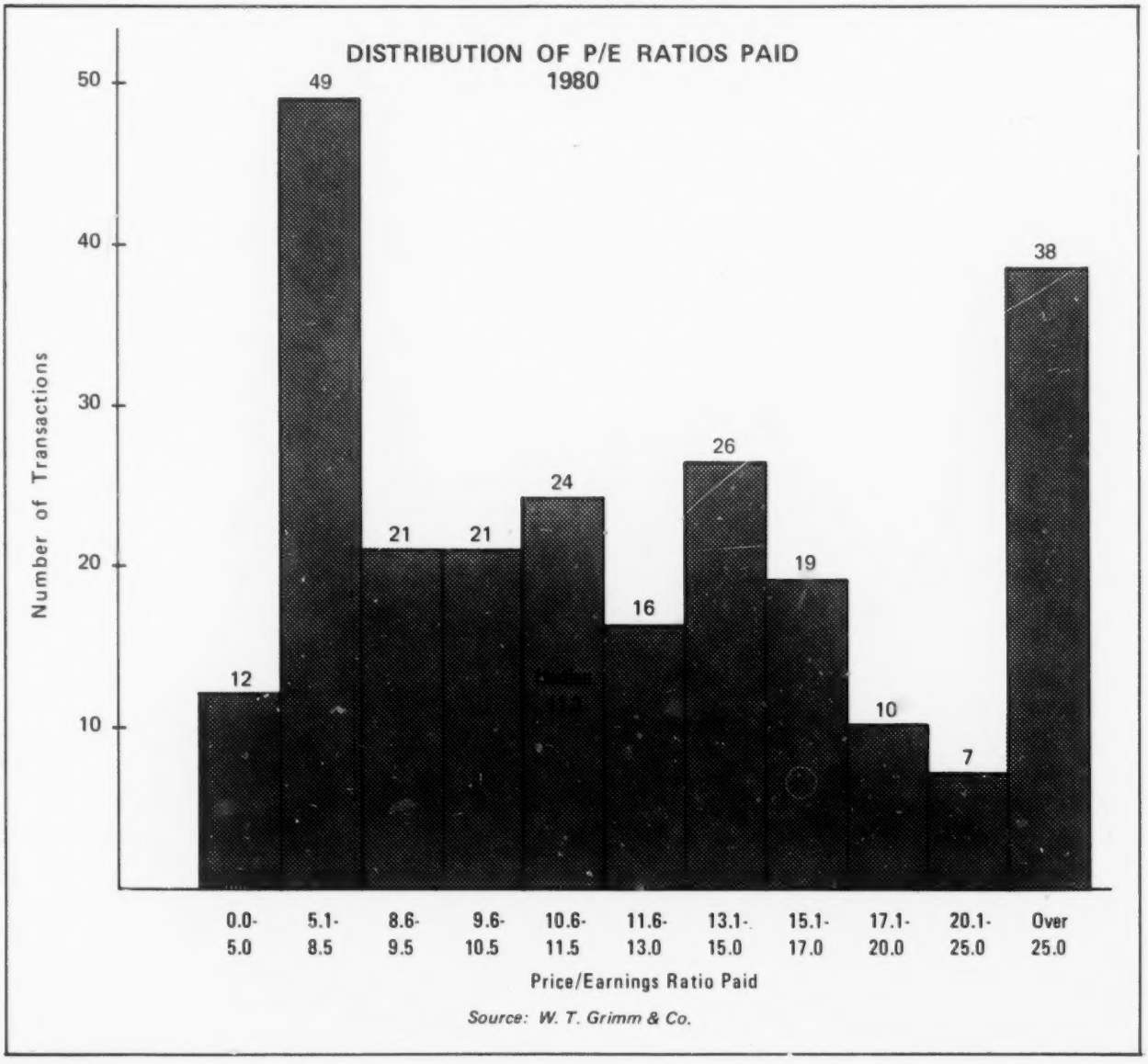

Figure 32.

The high percentage of acquisitions with exceptionally high multiples certainly biased the 1980 average. Fifteen percent or 38 of the transactions providing ratios consisted of acquirers paying more than 25 times the earnings of the selling company. In 1979, acquisitions with multiples over 25 times amounted to 7%.

One should be aware that during the late 1960s and early '70s, the average P/E paid varied between 21 and 24 times earnings, while the Dow Jones Industrial Average's P/E ratio hovered in the mid-teens. By way of comparison, the 1980 DJIA P/E multiple ranged from 6.0 to 8.7.

The 15.2 average P/E paid in 1980, therefore, was 75% above the year-end DJIA P/E of 8.7, while the P/E paid a decade ago was less than 50% over the then DJIA multiple. This indicates that aggressive acquirers today are paying higher premiums over current Dow Jones P/Es than were paid ten years ago.

Examining the 38 selling companies receiving over 25 times earnings, we find that 15 of the firms were related to the high technology field; 5 were in the insurance and finance industries, and 4 were petroleum or natural resource concerns. A sampling follows.

ACQUISITIONS: P/E-MULTIPLES HIGHER THAN 25.0 TIMES

Buyer Name	Seller Name
Alaska Interstate Co.	C & K Petroleum, Inc.
Baldwin-United Corp.	Colwell Co.
Square D Co.	General Semiconductor Industries, Inc.
Schlumberger Ltd.	Manufacturing Data Systems, Inc.
M/A-Com, Inc.	Microwave Power Devices, Inc.
DuPont Co.	New England Nuclear Corp.
Eli Lilly & Co.	Physio-Control Corp.
Amax, Inc.	Rosario Resources Corp.
Gould, Inc.	Systems Engineering Laboratories, Inc.
Westinghouse Electric Corp.	Teleprompter Corp.
Petro-Lewis Corp.	Trans Delta Corp.
Monumental Corp.	United Republic Investment Co.

Source: W. T. Grimm & Co.

Figure 33.

A better interpretation of the price earnings ratios paid is the median which is not affected by extreme values. Median values since 1976 are provided below:

1976 – 10.9 X
1977 – 10.6 X
1978 – 11.5 X
1979 – 11.6 X
1980 – 11.3 X

Separate medians were computed for acquisitions of public companies and acquisitions of privately owned firms. The median for the public sector was 11.5 (11.8 in 1979), while the median for private companies was 10.3 (11.3 in 1979).

A comparison of median multiples paid with respect to the dollar value of the transaction and the method of payment is presented in the subsequent charts.

MEDIAN P/E PAID
Comparison by Dollar Value
1980

Price Paid Value	Median P/E-Paid
$25 million or less	10.2
$25.1 – 50.0 million	9.5
$50.1 – 100.0 million	13.7
Over $100 million	13.7

Source: W. T. Grimm & Co.

Figure 34.

MEDIAN P/E-PAID
Comparison by Method of Payment
1979 – 1980

	Median P/E-Paid	
Payment Medium	1979	1980
Cash	11.9	11.0
Stock	11.1	12.8
Combination	12.4	11.3

Source: W. T. Grimm & Co.

Figure 35.

CONTINGENT PAYOUTS

Acquisitions utilizing contingent payouts increased from only nine deals in 1979 to 33 transactions for 1980. Contingent payouts are supplementary payments based on the future earnings of the acquired concern. They are used to overcome the difficulty in determining the present value or future growth rate of a selling company. Thus, the contingent provision serves as 1) a protection for the buyer against overvaluation of the seller, and 2) an incentive for the seller's management to remain.

Some observations on the 33 transactions include 1) most of the acquired companies were small privately held firms with annual sales of $4 million or less, and 2) 73% of the sellers were service oriented establishments.

ANNUAL SALES OF ACQUIRED COMPANIES

Acquisitions of entire companies (non-divestitures) totaled 1,223, of which 504 disclosed the seller's most recent annual sales. In 1979, 644 out of 1,376 supplied sales figures.

DISTRIBUTION OF SELLERS BY SALES
1979 – 1980

Annual Sales Volume	Percentage of Sellers 1979	1980
$5 million or less	28%	24%
$ 5.1 – 10.0 million	16%	17%
$10.1 – 15.0 million	7%	8%
$15.1 – 25.0 million	10%	12%
$25.1 – 35.0 million	6%	7%
$35.1 – 50.0 million	6%	7%
$50.1 – 75.0 million	7%	6%
$75.1 – 100.0 million	4%	4%
Over $100 million	16%	15%

Source: W. T. Grimm & Co.

Figure 36.

CANCELLATIONS

There were 178 cancelled transactions for 1980 which represented 8.6% of gross merger announcements. This compared with 219 or 9.3% in1979. The ten largest cancellations are catalogued in Figure 37. Where available, the reason for each termination is also provided.

TEN LARGEST CANCELLATIONS
1980

Buyer/ Seller	Approximated Value (Millions)	Reason for Cancellation
Tamco Enterprises, Inc. City Investing Co.	$1,228.5	City directors rejected offer; Tamco withdrew.
Santa Fe Industries, Inc. Southern Pacific Co.	1,120.0	Decision to terminate was mutual; no reason given.
Amdahl Corp. Storage Technology Corp.	838.3	Unable to agree on certain conditions.
Kohlberg, Kravis, Roberts & Co. Foremost-McKesson, Inc.	648.0	Discussions terminated; no reason given.
Penn Central Corp. GK Technologies, Inc.	633.5	Penn Central called off its offer, citing insufficient time to obtain and evaluate certain information.
Standard Brands Ltd. Liggett Group, Inc.	548.3	Standard withdrew; Grand Metropolitan increased its offer.
Charter Co. ERC Corp.	547.8	Charter withdrew from hostile atmosphere, namely, Connecticut General Insurance Corp.
J. Ray McDermott & Co. Pullman, Inc.	515.3	McDermott withdrew its "hotly" contested offer; Pullman acquired by Wheelabrator-Frye.
Charter Co. Occidental Petroleum Corp. (Permian Corp.)	500.0	Occidental decided to keep Permian "because of the current shortage of crude oil".
Connecticut General Insurance Corp. ERC Corp.	480.0	Getty Oil Co. offered a higher bid.

Source: W. T. Grimm & Co.

Figure 37.

MERGER OUTLOOK

Following a 23% plunge in the first half of 1980, merger activity picked up in the second half to 1,033 transactions which was 2% over the 1,011 tabulated in the last half of 1979. The short-lived drop in the prime rate during the summer months revived acquisition activity, which was earlier dampened by prohibitive costs of money together with the Federal Reserve Board's warning to member banks against corporate takeover loans. Furthermore, the extent of fluctuation, rather than the high interest rates themselves, may have had a psychological impact on "M&A" activity. The volatile movement of the prime lending rate and other economic swings certainly placed a great strain on decision-making executives.

The volatility of economic conditions, however, did not affect the growing rate of transactions in the $100 million or larger category. If anything, the rapidly changing economic environment (inflation, prime rate, etc.) may have induced more companies to initiate strategic acquisition and/or divestiture programs. The majority of participants in the giant-takeover arena are companies managing a portfolio of businesses. In examining the management priorities of these companies, the one most often cited is "redeployment of assets". Assets are to be redeployed into those product lines offering better than average growth for the future. Such a strategy will surely entail (1) divesting units that do not provide an adequate return on the capital invested, and (2) redirecting capital into existing or entirely new profit centers.

We, therefore, expect sizable transactions to continue with a more amicable attitude from the Federal Trade Commission and Justice Department. The pro-business Reagan administration has no pre-conceived restriction as to the size of American companies. International corporations will be encouraged to increase exports of products manufactured by American labor.

As to specific industries, we look for increased activity in the banking and finance industry. As a result of deregulation which permits NOW accounts and allows thrifts to offer more extensive services, increased competition will force the smaller, weaker institutions to merge with the stronger firms. Other fields receiving acquisition interest will surely include any company serving the energy-producing oil, gas and coal-mining industries: oil field service concerns, manufacturers of pumps and compressors, construction contractors serving refinery and gas processing industries. The high technology field will continue to attract corporate purchasers with its strong potential for future growth. We also expect increasing acquisition interest in discount and specialty stores.

In view of the second half's substantial merger increase from the first half (1,033 vs. 856) and the slight, but encouraging, gain over the second half of 1979, a **gradual** recovery may be in the offing. Much, however, depends on the new administration's ability to steer the economy on a productive and more predictable course.

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